COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

)

DEFAULT SERVICE) D.T.E. 99-60

PROCUREMENT AND PRICING)

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REPLY COMMENTS OF

WESTERN MASSACHUSETTS INDUSTRIAL CUSTOMERS GROUP

I. Introduction

The Western Massachusetts Industrial Customers Group ("WMICG") appreciates this opportunity to submit reply comments to the various initial comments filed in this docket regarding electric default service procurement and pricing (ADefault Service≅).

WMICG outlined three general principles for the pricing and procurement of Default Service in its initial comments. Default service should

- Create proper price signals for customers and suppliers that fairly reflect the competitive retail and wholesale marketplaces;

- Avoid opportunities for customers, suppliers or distribution companies to "game" the system which cause costs to be improperly allocated to and among customers;

- Encourage customers and local distribution companies to procure electricity in an efficient, and cost effective manner.

In addition, Default Service should be easy for the suppliers and distribution companies to administer and for the customers to understand.

A review of the various comments indicates that the comments of several parties fall short of one or more of these principles.

II. There Should Be No Reconciliation Clause For Default Service

Distribution companies seek to retain a fully reconciling clause for the procurement of Default Service similar to the current adjustment clauses for standard offer service and the old fuel clauses. Massachusetts Electric Company claims that a reconciling adjustment clause is necessary because distribution companies have a legal obligation to procure Default Service. (MECo Comments at 4). The fact that distribution companies have a legal obligation to provide Default Service provides no requirement for a reconciliation clause. While distribution companies have a legal obligation to provide distribution service to customers, the Department has never established a total reconciliation adjustment for distribution rates. To do so would require the Department to reduce the authorized rate of return as the local distribution company would then have a business without risk. In that event the return on common equity should be established at the level of a United States government note or bond which has no significant risk of non-payment or default and not the level of other regulated companies which have an opportunity but not a guaranteed rate of return. A legal obligation to provide Default Service is no basis to authorize a reconciling cost recovery clause.

Second, a reconciliation clause provides no incentive for distribution companies to procure or price Default Service efficiently. Default Service would be simply a pass-through with **all** costs incurred charged to customers. This would require the establishment of regulatory oversight to determine if Default Service was acquired efficiently. Since all costs are recovered by the distribution company with a reconciliation clause, there is no incentive for the distribution company to procure or price Default Service to reflect time-of-use or the appropriate losses at different voltage levels as these factors are irrelevant to cost recovery by the distribution company. Further the distribution company has no incentive to shift these risks to the suppliers. This creates opportunities for cross-subsidization of Default Service costs which do not vary by time-of-use or voltage level.

Third, as noted by one distribution company, a reconciliation clause that charges costs incurred in one costing period to another Araises issues of equity since customers will be capable of joining and leaving Default Service at any time.≅ (Eastern Edison Company Comments at 5.) WMICG agrees with this observation and suggests that it is yet another reason to reject reconciliation adjustment clauses for Default Service and to order such existing clauses to be removed.

Fourth, no provision of G.L. c. 164, ə 1B(d) which establishes Default Service, requires or specifically authorizes a reconciliation clause and none should be approved. Also, as outlined in the initial comments of WMICG any procurement costs for Default Service should be established annually on a state-wide basis by the Department and the local distribution company should be able to recover only those approved charges. Such a recovery method would be performance based with the distribution companies retaining the risk and the rewards of their action in acquiring Default Service.

Finally, it should be clearly recognized that the current standard offer pricing methods in effect were proposed by the local distribution companies over objections by various customers and suppliers in several proceedings including DPU 96-25. Thus, the track record of the local distribution companies has not been pro-competition, but has been solely to protect their own financial interests. Accordingly, the reconciliation clause proposal for Default Service presented by the local distribution companies must not be assumed to be pro-competition, pro-consumer or pro-supplier. It is clear that this proposal does not benefit customers or suppliers. The only beneficiaries are the local distribution companies. Reconciliation clauses stifle progressive and efficient operations and should thus be rejected.

III. There Should Be No Time Limit For Default Service

Several parties contend that Default Service should be a limited transitory service where the customer is forced to a competitive supplier in or within a period of time such as six months. A review of the enabling statute indicates no intention to force customers to a bi-lateral contract with a competitive supplier to the exclusion of Default Service. In fact, the statute provides that Default Service is applicable "to all customers at the end of the term of the standard offer." There is no language that Default Service is limited to six months or any period of time. The Department should not impose any such artificial limit. It appears that some parties want to force customer to find a seller (or be assigned to one). The Retail Market Participants say that "Competitive retail suppliers compete directly with Default Service prices" (Comments, page 2). Those same competitive retail suppliers have the option of competing to provide Default Service, so there is no competitive disadvantage. The Retail Market Participants go on to say:

A poorly designed default Service will result in a large number of

customers using it in perpetuity rather than taking advantage of the

innovative product and service offerings in the competitive retail market.

If retailers can provide "Innovative products and services," then they should be able to compete with Default Service. As long as Default Service is not subsidized by other customers, if it is cheaper than a retailer's price, the customer gets no benefit from being forced to take a retailer's higher price. To do so will not be pro-consumer or pro-competition, but will create additional transaction costs for customers when they may be unnecessary.

IV. No Artificial Charges Should Be Added to the Default Service Price

While the local distributor should be allowed to recover a Department pre-approved charge to procure Default Service, no other costs should be added to the Default Service charge other than the price of competitively acquired power as bid by successful

suppliers. The cost to acquire Default Service should be removed completely from distribution rates and should be reflected solely in the Default Service price. The Department should require that competitive bids include a time-of-use pricing option as well as a monthly and six month average charges. Any costs of administration, contract negotiation and profit for suppliers should be included in the bid prices.

Some parties have contended that there should be an additional price to the Default Service price so that customers do not pay twice for the costs to acquire Default Service with any additional cost recovery returned to all customers. This is inappropriate for several reasons. First, there is no double charge of acquisition costs as the costs reflect two separate sets of costs, one incurred by the distribution company and the other by the supplier. WMICG has outlined its position that distribution company costs should be removed from distribution rates and charged at a rate established by the Department on a uniform basis for those types of Default Service that cause the distribution company to incur costs. These include costs to issue the RFP, review the bids, and negotiate appropriate contractual arrangements. While the supplier will incur similar type of costs these costs should be reflected in the price that a supplier is winning bid. The customer twice for the same costs.

V. Retail Pricing For Default Service Should Include At Least Three Options

Retail pricing of Default Service should include at least three pricing options to be selected by the customer as follows: a time-of-use price, a monthly average rate, and a six month average rate required by statute. Each of these three options should contain a Department approved loss adjustment factor for service at various voltage levels or require suppliers to bid prices at different voltage levels to reflect different losses. The latter option is the preferable option as it allows the market to establish the appropriate loss factors without the need for the Department to do so administratively. To ensure that bidders provide the most competitive price including losses at each voltage level, the Department should require bids to be obtained at various voltage levels with the lowest total cost at each voltage level selected by the distribution company. The Department should not allow a uniform price of electricity to obfuscate the price of electricity and re-allocate costs among customers as under the current standard offer service. Such a method will create cost-subsidies and opportunities to "game" the system by sophisticated market participants.

VI. A Single Uniform Price Creates an Opportunity to *Game* the System

Massachusetts Electric Company recognizes that a single average Default Service price provides the opportunity for a customer or supplier to take service during high price periods at the average rate and move to the competitive rate for the low cost periods. (MECo Initial Comments at 4.) Mass. Electric proposes to allow the local distribution

company or default supplier to protect itself from this potential Agaming≅ by having the right to require any customer that changes to Default Service more than once in any 12 month period to be billed under the time-of-use option. If a time-of-use meter is not in place one could be installed or the customer could be billed based on the average load profile applicable to its class as currently used by the distribution companies in the NEPOOL billing and settlement procedures.

Likewise, a customer should also have the option to be billed for Default Service on a time-of-use basis to avoid being subject to a "gaming" charge by the supplier or distribution company to avoid lost revenues incurred as a result of such actions by the supplier.

VII. Pricing of Default Service Should Be Based on Competitive Bids

As outlined above, WMICG believes that the distribution companies should be required to acquire at least three different pricing options for Default Service from its supplier(s).

- Time-of-use pricing
- Monthly average pricing
- Six month average pricing

Suppliers should receive a pass-through of the revenues from these three pricing options. All administrative and other procurement costs for Default Service, at the rate approved by the Department, should be added to each option as appropriate. With this pricing method the distribution company does not bear the risk of collection for Default Service - that risk is retained by the supplier. This provides another reason to reject a reconciliation adjustment charge for the distribution companies for Default Service.